



Entergy

Entergy Arkansas, Inc.  
425 West Capitol Avenue  
P.O. Box 551  
Little Rock, AR 72203-0551  
Tel 501 377 4457  
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RECEIVED

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Steven K. Strickland  
Vice President  
Regulatory Affairs

**SENT BY OVERNIGHT MAIL**

T.R.A. DOCKET ROOM

September 30, 2003

Ms. Deborah Taylor Tate, Chairman  
Tennessee Regulatory Authority  
460 James Robertson Parkway  
Nashville, TN 37243-0505

Re: Tennessee Regulatory Authority Docket No. 03-00486  
Entergy Arkansas, Inc. (EAI) Request for Approval to enter  
into certain financing transactions during the years 2004  
through 2006

Dear Chairman Tate:

In follow up to our letter dated August 22, 2003, attached are the original and thirteen copies of the Arkansas Public Service Commission (APSC) Designation Order No. 1 issued September 5, 2003 in APSC Docket No. 03-139-U, Staff testimony of Johnny Brown filed on September 25, 2003, and APSC Order No. 2 issued September 30, 2003, granting EAI's application for entering into certain financing transactions during the years 2004 through 2006.

EAI is requesting that the Tennessee Regulatory Authority (TRA) issue an order approving or concurring with the APSC Order as soon as possible which will allow EAI the authority to issue the First Mortgage Bonds pursuant to TENN. CODE ANN. § 65-4-109 for the period of January 1, 2004 through December 31, 2006. The bond underwriters require APSC and TRA approval of the financing transactions described in the Application.

If you have any questions or need additional information, please do not hesitate to call me at (501) 377-4457 or Mr. Will Morgan at (501) 377-5489.

Sincerely,

SKS/tj  
Attachments

ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE APPLICATION OF )  
ENTERGY ARKANSAS, INC. FOR AUTHORIZATION )  
TO ENTER INTO CERTAIN FINANCING )  
TRANSACTIONS BETWEEN JANUARY 1, 2004, )  
AND DECEMBER 31, 2006 )

DOCKET NO. 03-139-U  
ORDER NO. 1

## DESIGNATION ORDER

We hereby designate Burl C. Rotenberry as the presiding officer in the above-styled Docket, pursuant to Rule 3.06 of our Rules of Practice and Procedure and Order Nos. 4 and 5 of Docket A-80-032.

The designated presiding officer may establish any necessary schedule, rule upon all motions, and issue interlocutory and final orders in this docket. All final orders entered by the designated presiding officer shall represent the findings and conclusions of the Commission, subject to the following provisions:

1. Objections to a final order entered by the designated presiding officer.

(A) Objections to any final order entered by the designated presiding officer may be filed by any party, including Commission Staff, with the Secretary of the Commission within ten (10) days of the date said order was entered. Provided, that the Commission may extend the ten day objection period for good cause shown. The Commission will ordinarily not entertain objections to an interlocutory order entered by the designated presiding officer unless said order is in fact final as to one or more of the parties or unless there is a showing of extraordinary cause. Any objection

to the designated presiding officer's final order shall specifically set forth the grounds upon which the objection is based.

(B) Subsequent to the receipt of a timely objection to a final order entered by the designated presiding officer, the Commission will review the order and the objection thereto.

1. In response to a timely objection, the Commission may modify the designated presiding officer's final order, conduct supplemental proceedings, or permit further filings as it may deem appropriate. The Commission shall initiate such action, if any, in writing within thirty (30) days following the date of the final order entered by the designated presiding officer.

2. If the Commission does not act in writing upon a timely objection to a final order entered by the designated presiding officer within thirty days after the designated presiding officer has entered his or her final order, the Commission shall be deemed to have approved said order, over objection.

(C) If there are no timely objections to a final order entered by the designated presiding officer, said order shall be deemed to have been approved and adopted as its own by the Commission, unless the Commission shall, upon its own motion, extend the normal thirty day review period or modify the final order entered by the designated presiding officer within thirty days after it was entered, as provided in Section 2 below.

2. Commission modification of the designated presiding officer's final order in the absence of a timely objection by a party.

(A) The Commission may modify, upon its own motion, a final order entered by the designated presiding officer whether or not any of the parties file an objection. Such

modification shall be initiated by the Commission in writing within thirty days after the designated presiding officer enters his or her final order.

(B) Lack of Commission modification of the designated presiding officer's final order within thirty days after it was entered, in the absence of objections to said order from any party, shall be deemed to constitute Commission approval and adoption of said order.

3. Petitions for Rehearing.

(A) Once the Commission has taken final action on any order entered by the designated presiding officer by approving the order or making a modification of its own, any party, including the Commission Staff, may file a Petition for Rehearing pursuant to Ark. Code Ann. §23-2-422 (1999 Supp.).

(B) If the Commission grants a Petition for Rehearing, it may redesignate the matter for further consideration and action. Absent such redesignation, the Commission shall conduct such rehearing proceedings as it may deem appropriate.

BY ORDER OF THE COMMISSION.

This 5<sup>th</sup> day of September, 2003.

I hereby certify that the following order issued by the Arkansas Public Service Commission has been served on all parties of record this date by the U S mail with postage prepaid using the address of each party as indicated in the official docket file

Diana K. Wilson  
Diana K. Wilson

Secretary of the Commission  
Date 9-5-2003

Diana K. Wilson (acting)  
Diana K. Wilson  
Secretary of the Commission

Sandra L. Hochstetter

Sandra L. Hochstetter, Chairman

Daryl E. Bassett

Daryl E. Bassett, Commissioner

Randy Bynum  
Randy Bynum, Commissioner

SEP 25 2 21 PM '03

FILED

ARKANSAS PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF )  
ENTERGY ARKANSAS, INC. FOR AUTHORIZATION )  
TO ENTER INTO CERTAIN FINANCING ) DOCKET NO. 03-139-U  
TRANSACTIONS BETWEEN JANUARY 1, 2004, )  
AND DECEMBER 31, 2006 )

PREPARED TESTIMONY

OF

JOHNNY BROWN  
FINANCIAL ANALYST

ON BEHALF OF THE  
ARKANSAS PUBLIC SERVICE COMMISSION STAFF

SEPTEMBER 25, 2003

1  
2 **INTRODUCTION**

3 **Q. Please state your name and business address.**

4 A. My name is Johnny Brown. My business address is the Arkansas Public Service  
5 Commission (Commission or APSC), 1000 Center Street, Little Rock, Arkansas, 72201.

6 **Q. Please describe your present position with the Arkansas Public Service Commission  
7 General Staff (Staff).**

8 A. I am employed by Staff as a Financial Analyst in the Financial Analysis Section. In that  
9 capacity I perform economic and financial analysis, including determining the appropriate  
10 relative relationship between debt and equity capital and calculating the cost of debt,  
11 preferred stock and common equity as components for determining the overall required rate  
12 of return for jurisdictional utilities. Additionally, I evaluate proposed debt and equity  
13 issuances, mergers, and acquisitions pertaining to the Arkansas jurisdiction, and monitor  
14 current economic and market trends and their impact on the cost of capital.

15 **QUALIFICATIONS**

16 **Q. Please describe your education, work experience, and qualifications.**

17 A. I graduated from the University of Arkansas at Little Rock with a Bachelor of Business  
18 Administration degree in Finance. For two years I worked in the financial services industry  
19 as assistant to the investment manager at a local investment management firm. My duties  
20 consisted of securities analysis, portfolio modeling, compiling and reporting the financial  
21 statements of the company, quarterly billing, and managing the monthly payroll tax  
22 withholdings. As my experience progressed, my responsibilities were expanded to include  
the evaluation of investment portfolios to ensure that valuation and performance

1 characteristics were maintained based on the personal needs of the client and other economic  
2 and financial factors. Additionally, I was heavily involved in the fundamental and technical  
3 analysis used to evaluate capital markets and specific securities in order to make informed  
4 investment decisions.

5 During the time I have been employed by Staff, I have attended several regulatory  
6 training seminars, including the two-week NARUC Annual Regulatory Studies Program at  
7 Michigan State University, and the Utility Regulatory Training presented by the Center for  
8 Public Utilities of New Mexico State University. I have also regularly attended the annual  
9 Financial Forum sponsored by the Society of Utility and Regulatory Financial Analysts, of  
10 which I am a member.

11 **PURPOSE**

12 **Q. What is the purpose of your testimony in this proceeding?**

13 A. The purpose of my testimony is to address the Application of Entergy Arkansas, Inc. (EAI or  
14 the Company) and the Direct Testimony of Steven C. McNeal filed in this docket on August  
15 20, 2003. The Company is requesting authorization to issue and sell: 1) one or more series  
16 of First Mortgage Bonds (Bonds) not to exceed the sum of \$1,150,000,000; 2) one or more  
17 series of (a) preferred securities through a Special Purpose Subsidiary, or (b) \$100 Par Value,  
18 \$25 Par Value, or Class A Preferred Stock (collectively, Preferred Stock), which in a  
19 combined amount would not exceed \$190,000,000; 3) an aggregate amount of common  
20 stock, not to exceed \$200,000,000; 4) one or more series of tax-exempt bonds in an  
21 aggregate principal amount not to exceed \$300,000,000; and 5) one or more new series of

1 collateral bonds in an aggregate amount not to exceed \$336,000,000, separate and apart from  
2 the request for issuance and sale of Bonds.

3 **OVERVIEW**

4 **Q. What is the basis for EAI's application for authorization to issue various types and**  
5 **amounts of securities?**

6 A. EAI's last authorization to issue securities was granted by Order No. 1 of Docket No. 03-093-  
7 U, which was basically an extension of the authorization given in Docket. No. 01-221-U, and  
8 expires December 31, 2003. The Company's application is intended to address general  
9 financing needs beginning January 1, 2004, and ending December 31, 2006. Mr. McNeal  
10 states, "With the fluctuations in capital markets, EAI may have opportunities to reduce its  
11 financing costs and to increase its financial flexibility."<sup>1</sup> He goes on to say, "The Company  
12 is requesting authorization for such sales primarily to achieve the flexibility that will permit a  
13 timely response to changing market conditions when it becomes beneficial for the Company  
14 to refinance, refund, or otherwise acquire outstanding higher cost securities."<sup>2</sup> By having this  
15 variety of issuance authorizations, the Company's intent is to have the ability to select the  
16 timing, terms and conditions, and amounts of offerings of several types of securities.

17 **Q. How will the proceeds from the issuance of these various types of securities be used?**

18 A. Mr. McNeal's testimony indicates that, "The Company proposes to use the proceeds derived  
19 from the issuance and sale of the securities, as proposed in the Application, for general

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<sup>1</sup> McNeal Direct Testimony, page 5, lines 8-10

<sup>2</sup> McNeal Direct Testimony, page 9, lines 16-20



1 corporate purposes, including, but not limited to, the possible acquisition, redemption, and  
2 refunding of certain outstanding securities, for both economic refundings and reissuances of  
3 debt maturities; for restructuring debt to provide more flexibility; to fund capital  
4 expenditures and working capital needs; and to finance unanticipated events, such as  
5 emergency restoration."<sup>3</sup> As stated above, the Company's expectations are that these funds  
6 would be used to refinance outstanding, higher cost securities, thus reducing its cost of  
7 capital. Additionally, Mr. McNeal states, "While EAI does not at this time have any plans to  
8 issue any new debt, the Company has included an amount [\$300 million] in its request to  
9 cover such an issuance of new debt in case a need for capital should arise."<sup>4</sup>

10 **Q. Does EAI have Bonds outstanding that will mature or otherwise be redeemable**  
11 **between January 1, 2004 and December 31, 2006, the period covered by this financing**  
12 **authority?**

13 **A.** Yes. The Application indicates that \$840 million will mature or otherwise be redeemable  
14 during this period.

15 **HISTORY**

16 **Q. Has this Commission previously addressed the types of securities EAI is requesting**  
17 **authorization to issue in this docket?**

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<sup>3</sup> McNeal Direct Testimony, page 9, lines 9-16

<sup>4</sup> McNeal Direct Testimony, page 8, lines 1-4

1 A. Yes. All of the various types of securities described in the Company's Application were  
2 previously approved in Docket No. 99-234-U and Docket No. 01-221-U. Only some of the  
3 amounts and the authorization period are different in this docket.

4 **APPROACH**

5 **Q. How did you evaluate this request?**

6 A. I have calculated the pro forma debt levels and interest coverage based on the Company's  
7 estimated issuance types and amounts. In EAI Exhibit E-1 and E-2, the Company provided  
8 pro forma financial statements reflecting the estimated issuances. Depending on whether the  
9 two estimates included \$190 million of preferred securities or preferred stock, the resultant  
10 debt to equity ratios were 57:43 and 51:49, respectively. The interest coverage is  
11 approximately 4 times in either case.

12 **Q. Why is EAI requesting a three-year authorization period?**

13 A. The Company states "the longer authorization period will assist in planning the Company's  
14 debt structure to take advantage of markets or issue new debt as appropriate."<sup>5</sup> Mr. McNeal  
15 goes on to say, "With adequate financial flexibility EAI could take advantage of favorable  
16 interest rate fluctuations to refund its higher cost debt."<sup>6</sup>

17 **Q. What has been the practice of this Commission?**

18 A. The long-standing practice of the Commission has been to authorize security issuances for a  
19 period of two years. This practice is generally consistent with the Security and Exchange  
20 Commission's two-year shelf registration for proposed security issuances. Based on the

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<sup>5</sup> McNeal Direct Testimony, page 6, lines 21-23

<sup>6</sup> McNeal Direct Testimony, page 7, lines 13-14

1 particular circumstances at this time, I do not necessarily take exception with a three-year  
2 authorization period. However, my recommendation is not intended to reflect a change in  
3 practice and I recommend the Commission evaluate any requested change in authorization  
4 period on a case by case basis.

5 **RECOMMENDATION**

6 **Q. What is your recommendation?**

7 A. Based on the specific representations made by the Company in Mr. McNeal's testimony and  
8 subject to certain reporting requirements, I recommend the Application be approved.  
9 Specifically, I recommend the Company be granted the authority to issue and sell: 1) one or  
10 more series of First Mortgage Bonds which in a combined amount would not exceed the sum  
11 of \$1,150,000,000; 2) one or more series of (a) preferred securities through a Special Purpose  
12 Subsidiary, or (b) \$100 Par Value, \$25 Par Value, or Class A Preferred Stock, which in a  
13 combined amount would not exceed \$190,000,000; 3) an aggregate amount of common  
14 stock, not to exceed \$200,000,000; 4) one or more series of tax-exempt bonds in an  
15 aggregate principal amount not to exceed \$300,000,000; and 5) one or more new series of  
16 collateral bonds in an aggregate amount not to exceed \$336,000,000, separate and apart from  
17 the request for issuance and sale of First Mortgage Bonds. However, nothing in my  
18 testimony constitutes a recommendation of value for ratemaking purposes. The appropriate  
19 ratemaking treatment of any of the issues addressed in this docket is expressly reserved for  
20 future consideration.

21 **Q. What specific reporting requirements do you recommend?**

ENTERGY ARKANSAS, INC.  
DOCKET NO. 03-139-U  
PREPARED TESTIMONY OF JOHNNY BROWN 7

1     A.     I recommend the traditional reporting requirements which comprise the specific terms of the  
2           issuance, including the actual interest rate and maturity date, all fees and other relevant facts,  
3           and the detailed accounting entries to record the transactions. These filings should be made  
4           in Docket No. 86-033-A with reference to this docket within thirty (30) days of the issuance  
5           or effective date, as applicable. Additionally, the Company should be required to include a  
6           detailed discussion of the rationale for using a specific type of financing method.

7     **Q.     Does this conclude your testimony?**

8     A.     Yes, it does.

**CERTIFICATE OF SERVICE**

I hereby certify that a copy of the foregoing has been served on all parties of record by forwarding the same by first class mail, postage prepaid, this 25<sup>th</sup> day of September, 2003.

Connie Gutter

ARKANSAS PUBLIC SERVICE COMMISSION

FILED

IN THE MATTER OF THE APPLICATION )  
OF ENTERGY ARKANSAS, INC. FOR )  
AUTHORIZATION TO ENTER INTO )  
CERTAIN FINANCING TRANSACTIONS )  
BETWEEN JANUARY 1, 2004, AND )  
DECEMBER 31, 2006 )

DOCKET NO. 03-139-U  
ORDER NO. 2

ORDER

On August 20, 2003, pursuant to Ark. Code Ann. § 23-3-103, *et seq.* and Rules 4 and 5 of the *Rules of Practice and Procedure* ("RPP") of the Arkansas Public Service Commission ("APSC" or the "Commission"), Entergy Arkansas, Inc. ("EAI" or the "Company") filed an application for authorization to enter into certain financial transactions between January 1, 2004, and December 31, 2006. With its application, EAI also filed the direct testimony of Steven C. McNeal. On September 5, 2003, the Commission, by Order No. 1, designated the undersigned Administrative Law Judge as the presiding officer in this docket. On September 25, 2003, Mr. Johnny Brown, Financial Analyst for the General Staff of the Commission (Staff), filed prepared testimony in response to EAI's application.

Based upon the Application and exhibits thereto and testimony received, I make the following findings of fact and conclusions of law:

1. The Arkansas Public Service Commission has jurisdiction of this matter pursuant to Arkansas Code Annotated § 23-3-103 *et seq.*

2. EAI is a corporation organized and existing under the laws of the State of Arkansas and is a public utility as defined by Arkansas Code Annotated § 23-1-101 *et seq.*

3. EAI requests authorization from the Commission to issue and sell, in one or more series, from time to time but not earlier than January 1, 2004, and not later than December 31, 2006: (i) first mortgage bonds in an aggregate principal amount not to exceed \$1,150 million; (ii) preferred securities in an aggregate principal amount not to exceed \$190 million (including the issuance through a special purpose subsidiary of the Company's subordinated debentures in an aggregate principal amount not to exceed \$190 million) when combined with the authority requested for the issuance of the preferred stock; (iii) preferred stock in an aggregate par value or involuntary liquidation value, as the case may be, not to exceed \$190 million when combined with the authority requested for the issuance of preferred securities and related notes; (iv) common stock, not to exceed 8,000,000 shares, at a minimum price of \$12.50 per share, for an aggregate maximum consideration of \$200 million; and (v) tax exempt bonds in an aggregate principal amount not to exceed \$300 million, and collateral bonds in an aggregate amount not to exceed \$336 million (separate and apart from the authorization requested herein for the issuance and sale of first mortgage bonds).

4. EAI states that its proposal would allow it the flexibility necessary to respond to changes in the market and reduce its financing costs through the refinancing of higher cost securities. The proceeds of the proposed financing

devices will be used for ". . . general corporate purposes, including, but not limited to, the possible acquisition, redemption, and refunding of certain outstanding securities, for both economic refundings and reissuances of debt maturities; for restructuring debt to provide more flexibility; to fund capital expenditures and working capital needs; and to finance unanticipated events, such as emergency restoration".<sup>1</sup> Additionally, EAI states that after the issuance of the First Mortgage Bonds, the Preferred Securities and related Notes and the Preferred Stock, the Common Stock and Tax-Exempt Bonds contemplated in this filing, the aggregate amount of all of its outstanding stock, bonds, notes and other evidences of indebtedness will not exceed the fair value of EAI's properties and the reasonable cost of the issuance and sale of the issues.

5. EAI has requested a three-year authorization period, "in order to assist in planning the Company's debt structure to take advantage of markets or issue new debt as appropriate".<sup>2</sup>

6. In responding to EAI's application, Staff notes that "[t]he long-standing practice of the Commission has been to authorize security issuances for a period of two years".<sup>3</sup> However, Mr. Brown states further that: "Based on the particular circumstances at this time, I do not necessarily take exception with a three-year authorization period."<sup>4</sup> However, Mr. Brown goes on to note that his "recommendation is not intended to reflect a change in practice".<sup>5</sup> Mr. Brown

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<sup>1</sup> McNeal Direct Testimony, page 9, lines 10-16

<sup>2</sup> McNeal Direct Testimony, page 6, lines 21-23

<sup>3</sup> Brown Prepared Testimony, page 5, lines 18-19

<sup>4</sup> Brown Prepared Testimony, page 5, line 20 -page 6, lines 1-2

<sup>5</sup> Brown Prepared Testimony, page 6, lines 2-3



recommends that the Commission evaluate other "requested change[s] in authorization period on a case by case basis".<sup>6</sup>

7. From its review of EAI's application, while reserving any finding for purposes of ratemaking, Staff recommends that the Commission approve EAI's application, based on specific representations made by EAI in Mr. McNeal's testimony and subject to certain specific, detailed reporting requirements.

8. For purposes of all issuances, Staff proposes that EAI provide traditional reporting information, including the specific terms, actual interest rate and maturity date of the issuance, all fees and other relevant facts, and the detailed accounting entries for the transactions. Staff proposes that EAI also be required to include detailed discussion of EAI's reasoning in selecting the financing method. This information should be filed in Docket No. 86-033-A, with reference to this docket, within thirty (30) days of the issuance or effective date, as applicable.

IT IS, THEREFORE, ORDERED that while expressly reserving for future consideration any finding regarding the appropriate ratemaking treatment of any of the issues for which approval has been requested, EAI's application is hereby approved and the financing authority requested therein is granted, subject to the specific representations made by EAI in the testimony of Mr. McNeal, and the reporting requirements recommended by Staff. It should be noted that the long-standing practice of authorizing security issuances for a period of two years is not being amended by this order, but instead, will be reviewed on a case-by-case

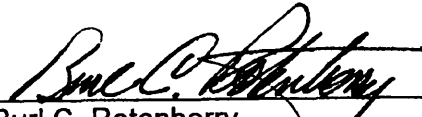
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<sup>6</sup> Brown Prepared Testimony, page 6, lines 3-4

basis as it has been in the past. Nothing herein shall be construed as obliging the State of Arkansas to pay, guaranty in any manner whatsoever, the bonds authorized or issued in connection with this Order. The Arkansas Public Service Commission retains jurisdiction of this matter for the purpose of issuing further orders as it may deem necessary or appropriate.

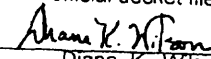
BY ORDER OF THE ADMINISTRATIVE LAW JUDGE PURSUANT TO DELEGATION.

This 30<sup>th</sup> day of September, 2003.

  
Burl C. Rotenberry  
Administrative Law Judge

  
Diana K. Wilson  
Secretary of the Commission

I hereby certify that the following order issued by the Arkansas Public Service Commission has been served on all parties of record this date by the U.S. mail with postage prepaid, using the address of each party as indicated in the official docket file

  
Diana K. Wilson

Secretary of the Commission

Date 9/30/03